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C O N F I D E N T I A L SECTION 01 OF 02 JAKARTA 000256

SIPDIS

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NSC FOR D. WALTON  
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SUBJECT: INTERNAL POWER STRUGGLE SLOWS PROGRESS ON REFORM,  
INDONESIA-U.S. PARTNERSHIP

REF: JAKARTA 00222 AND PREVIOUS

Classified By: DCM Ted Osius for reasons 1.4(b+d)

11. (C) SUMMARY: President Yudhoyono's reform efforts are slowing as he grapples with elements of his own government who seek to preserve Suharto-era patronage norms. Golkar and a cluster of other parties seek to undermine Yudhoyono's reforms by pinning responsibility for a controversial 2008 bank bailout on the government, and principally on key reformers Finance Minister Sri Mulyani Indrawati and Vice President Boediono. A legislative inquiry cast as an effort to promote transparency and good governance has served as a vehicle for parties, particularly Golkar -- the coalition party led by Aburizal Bakrie -- to jockey for influence in the current administration and to enhance their prospects for the 2014 election. Given serious domestic political fallout resulting from the inquiry, the President is unwilling to use any political capital to press forward with potentially unpopular reforms or take on any controversial issues, including some elements of the Indonesia-United States Comprehensive Partnership. END SUMMARY.

BAKRIE FIRES THE FIRST SHOT

12. (C) The Bank Century scandal has its roots in Finance Minister Indrawati and Vice President Boediono's push for bureaucratic and economic reform. A special parliamentary inquiry committee concluded that there was apparent malfeasance in the decision to bail out the Bank, and will likely refer the case to law enforcement authorities. These reforms threaten the Suharto-era patronage norms embodied by wealthy businessman and Golkar party chair Aburizal Bakrie. Bakrie, a key fundraiser for both of President Yudhoyono's campaigns, was Coordinating Minister for the People's Welfare in Yudhoyono's last administration. From that position Bakrie maneuvered to avoid blame for the Lapindo mudflow disaster and to gain an inside track to acquire a stake in Newmont's Batu Hijau mine. Bakrie's companies have also reportedly evaded taxes and circumvented other government regulations.

13. (C) Bakrie has repeatedly clashed with reformers in Yudhoyono's government. For example, in October 2008 Bakrie persuaded authorities to close Indonesia's stock market to halt the falling price of shares in his family's Bumi Resources. Finance Minister Mulyani told Yudhoyono that she would resign if trading did not resume. She eventually prevailed. However, Bakrie, still bitter about this episode, aimed to take her and VP Boediono down through a Golkar-led parliamentary inquiry into the government's 2008 bailout of

Bank Century. Mulyani and Boediono, then BI governor, were key decision makers behind the bailout.

#### YUDHOYONO FIRES BACK

14. (C) Bakrie's attacks on Yudhoyono's two most respected cabinet members and other actions have led the usually cautious President to respond. Returning to the Lapindo incident, Yudhoyono's government has re-opened an investigation into the cause of the mudflow. Most observers agree this was a direct attempt to rein in Bakrie.

15. (C) Yudhoyono's recent remarks that he would "clean up tax evaders" and discourage unhealthy relations between business and politics were aimed at Bakrie and his family business. Yudhoyono's Democratic Party (PD) members have suggested the possibility of a cabinet reshuffle of Golkar and PKS ministers if these coalition partners continue to agree with the opposition that the Bank Century bailout was illegal and continue to press for Mulyani and Boediono's removal. As Yudhoyono distances himself from Bakrie, this could cause investors lured by Bakrie's well-known access to the palace to lose confidence in his businesses.

#### BAKRIE,S NEXT MOVE?

16. (C) Despite the attacks on Yudhoyono,s trusted advisors, Bakrie has reiterated that Golkar wants to participate in the ruling coalition until 2014. His expressed desire to bring charges against Indrawati and Boediono to legal authorities demonstrates his desire to draw out the controversy and erode

JAKARTA 00000256 002 OF 002

Yudhoyono,s standing, however. Since Bakrie became the head of Golkar several months ago, he has pursued this strategy with success, as Yudhoyono,s plunging poll figures show.

#### GRIDLOCKED GOVERNMENT SLOWS PROGRESS ON REFORM, PARTNERSHIP

17. (C) President Yudhoyono started his second term with sixty percent of the vote and a seventy percent approval rating while his Democratic Party holds the largest share of parliamentary seats. This strong mandate for reform has prompted a sharp defensive reaction from Bakrie and his allies who see an increasing threat to their traditional power. The ongoing parliamentary inquiry, extensive media commentary and frequent but small street protests have kept the pressure on the Palace. The issuance of the parliamentary faction opinions on February 23 placed added pressure on Yudhoyono,s fractious coalition Cabinet.

18. (C) This struggle has paralyzed Yudhoyono and his government. Unwilling to risk alienating segments of the parliament, media, bureaucracy and civil society, Yudhoyono has slowed reforms. He is also unwilling to cross any constituencies who oppose potentially controversial elements of the U.S.-Indonesia Comprehensive Partnership, such as expanded health cooperation. Until he is satisfied that he has shored up his political position, Yudhoyono is unlikely to spend any political capital to move his reform agenda, or controversial aspects of U.S.-Indonesia relations, forward.  
HUME